




ISF SCOPAC Valuation

Valuation of SCOPAC As A Traditional Even-aged Forest vs. Managing SCOPAC As A Community Forest Using Long Rotation, Uneven-Aged Management



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ISF Project Purpose

To increase the ability of all stakeholders to understand both the costs and the benefits of meeting community standards in working forests.

This valuation details costs and projects potential income for two management models: Traditional Timber Management and Community Forest Management.

The additional cost of meeting community standards over the first 30 years have been quantified.

Additional benefits which accrue to the Community Forestry Model such as increased provision of ecosystem services and the county wide economic benefits of increased future timber production and income have not yet been quantified.



Scopac Valuation Project

- Emerged from discussions at the RFFi “Humboldt Committee” on large acquisitions:
 - How to quantify the economic benefits of RFFi style sustainable management
 - How to build public and financial support for RFFi acquisitions
- ISF suggested using specific data to provide an initial basis for projecting the potential costs and benefits of RFFi Community Forest style management
- At the committee’s request, ISF commissioned BBW to update a previous Scopac evaluation for two different management scenarios:
 - Traditional Timber Management, and
 - Community Forest Management

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Why Scopac?

The Scopac properties were chosen as an example because:

- The potential for Scopac bankruptcy and fragmentation is well publicized
- There is a high level of public information about the Scopac properties to draw from
- The sustainable management of Scopac properties as intact working forests is critical to both environmental and industry concerns

Caveats to Valuation

Caveats:

- There is no willing seller
- Property currently encumbered with \$700 million in bonded debt
- Valuation based only on publicly available information: no specific inventory data available
- Valuation does not account for the pending / recent sale of 15,000 acres of “non-productive” properties that SCOPAC has put on the market



Factors affecting SCOPAC valuation

Comparable Land Sales Approach

- Number and quality of comp sales

Revenue Stream Approach

- Size of operable landbase
- Mix of silvicultural systems
- Mix of Harvest Systems
- Actual and Predicted Harvest Rates



Comparable Land Sales

Sources of Information

- Green Diamond Purchase of LP Lands
- Elk River Timber 1998
- Stimson Del Norte Creek Property 2004
- Hawthorne Campbell, 2003

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Scopac Value Based on Comparable Sales

Based on evaluation of these comparable sales
the value of SCOPAC is estimated to be \$424,200,000

Owner	Year of Sale	Price /Acre	% Site II
Elk River Timber –9,458 ac.	1998	\$2,150	95%
Stimson – Del Norte County – 25,000 acres	2004	\$2,400	90%
Hawthorn-Campbell 194,000 ac.	2003	\$2,046	75%
Headwaters 5,711 acres	1998	\$61,285	90%
Barnum – Lacks Creek 4,000 acres	2005	\$1,250	50%
Proposed SCOPAC 204,000 acres		\$2,080	90%

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Revenue Stream Approach

Sources of Information

- 1998 PALCO SYP and HCP
- Public information on harvest rates from Northcoast Journal
- 10K and 8K filings through May, 2006
- 8K Notes to Investors from 10/27/05 (thanks to Mark Lovelace)
- GIS information from CDF
- Peer review by local consulting forestry firm



Revenue Stream Approach

- Mix of silviculture from CDF GIS
 - 1999-2004 41% CC, 13% TH, 9% Sel, 16% SW/ST, 21% NC
- Mix of logging systems from 8K
 - 1998-2004 32% tractor, 40% cable, 28% heli
- Operable Landbase from SYP, 8K and analysis
 - 8K 55% unrestricted, 29% partially restricted, 16% no harvest = 171,360 operable
 - BBW Analysis 151,600 acres operable



More Assumptions

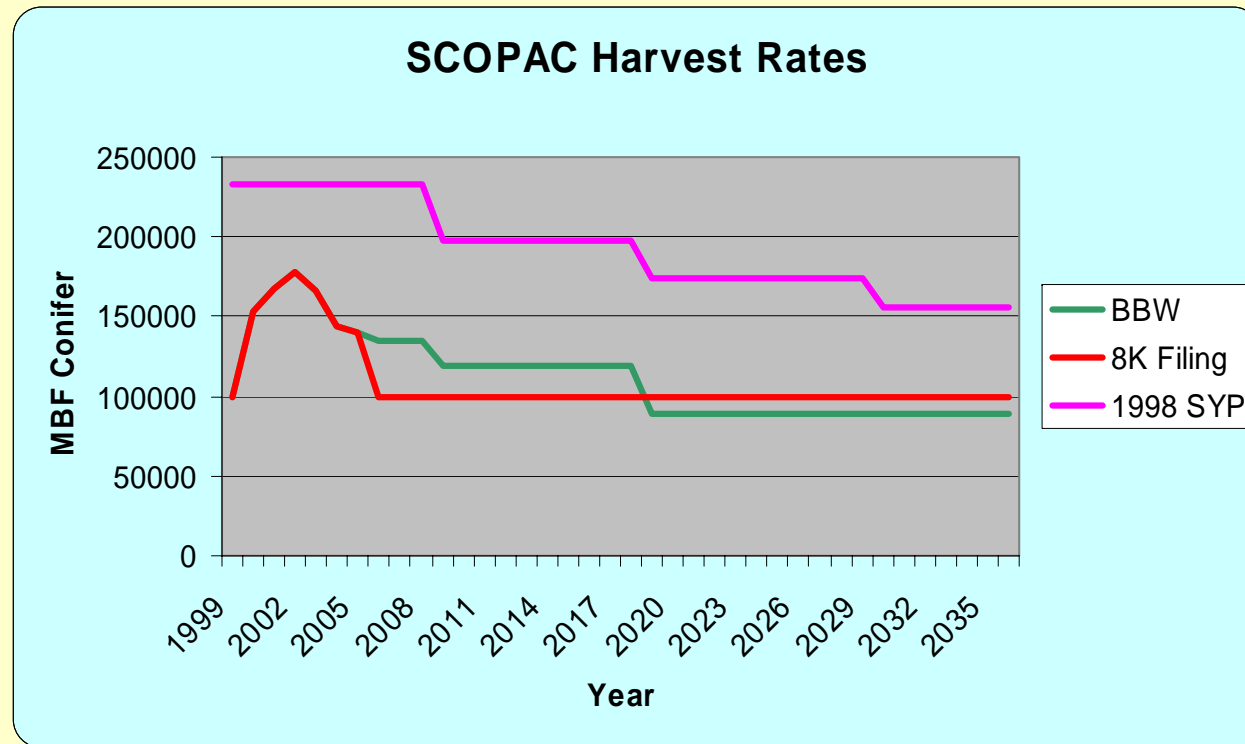
- Current suite of logging systems (e.g. 28% helicopter)
- Average BOE stumpage price for RW (\$684) and DF (\$415) from past 5 years
- Current management costs of \$5.25 million for management and \$3.75 million for consultants



SCOPAC Revenue Stream Valuation

- Used BBW projected harvest of 135 MMBF through 2008, then 116 through 2019 and then 88.7 through 2036
- Used 7%, 9% and 11% discount rates
- Used current mix of logging method
- Used estimates from SYP and 8K's of road costs (10.5 million/year) and employee costs (85 employees ~ \$5,250,000)
- Used consultants cost of \$3,750,00
- Used current mix of silvicultural costs
- Ran sensitivity analysis of no real price appreciation and 1%/year price appreciation

Past and Projected SCOPAC Harvest



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SCOPAC Revenue Stream Valuation

	Discounted Value of 30 Years of SCOPAC Timber Harvest Millions of \$		
	7% Discount Rate	9% Discount Rate	11% Discount Rate
No Price Appreciation, All Values Net of Inflation	\$537.4	\$469.3	\$416.8
Real Log Price Appreciation of 1%/year	\$646.7	\$552.0	\$481.8

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SCOPAC Value as Traditional Timber Company

Based on:

- Discounting 30 years of future timber harvest income at 7%
- Real price appreciation at 1% per year

The value of Scopac as a Traditional Timber investment is \$646.7 million



Community Forest Management

Assumptions:

Long rotations ~ 80 to 100 years

- 12% is currently late seral
- 54% of property becomes late seral after 30 years

Total no harvest = 53,000 acres

- No harvest on extreme and VH landslide hazard lands
- No harvest on extreme and VH high erosion hazard lands
- No harvest on 27,000 acres of mapped class I and II WLPZ

Total Harvest ~ 10,500 acres/year

- Cutting cycle of ~ 15 years
- Cut up to 75% growth
- Harvest of outer portions of some class II WLPZ down to 80% crown cover

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SCOPAC Uneven-aged Harvest Volumes

Yrs from Present	Annual MBF
0 - 4	84,558
5 - 9	74,105
10 - 14	63,342
15 - 19	79,886
20 - 24	117,355
25 - 29	106,532
30 - 34	104,203
35 - 39	135,990
40 - 44	126,366
45 - 49	131,441
50 - 54	141,556
55 - 59	115,856
60 - 64	145,683
65 - 69	127,428
70 - 74	152,692
75 - 79	156,537
80 - 84	127,428

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SCOPAC Value as Community Forest

SCOPAC 30 YEAR DISCOUNTED CASH FLOW OF UNEVEN-AGE LONG ROTATION MANAGEMENT AT VARIOUS DISCOUNT RATES AND PRICE APPRECIATION RATES

\$337,010,000	Current suite of logging methods, no price appreciate, 4% DR
\$503,560,000	Current suite of logging methods, 1% price appreciate, 4% DR
\$233,000,000	Current suite of logging methods, no price appreciate, 7% DR
\$331,360,000	Current suite of logging methods 1% price appreciate, 7% DR
\$159,060,000	Current suite of logging methods, no price appreciate, 11% DR
\$212,650,000	Current suite of logging methods, 1% price appreciate, 11% DR

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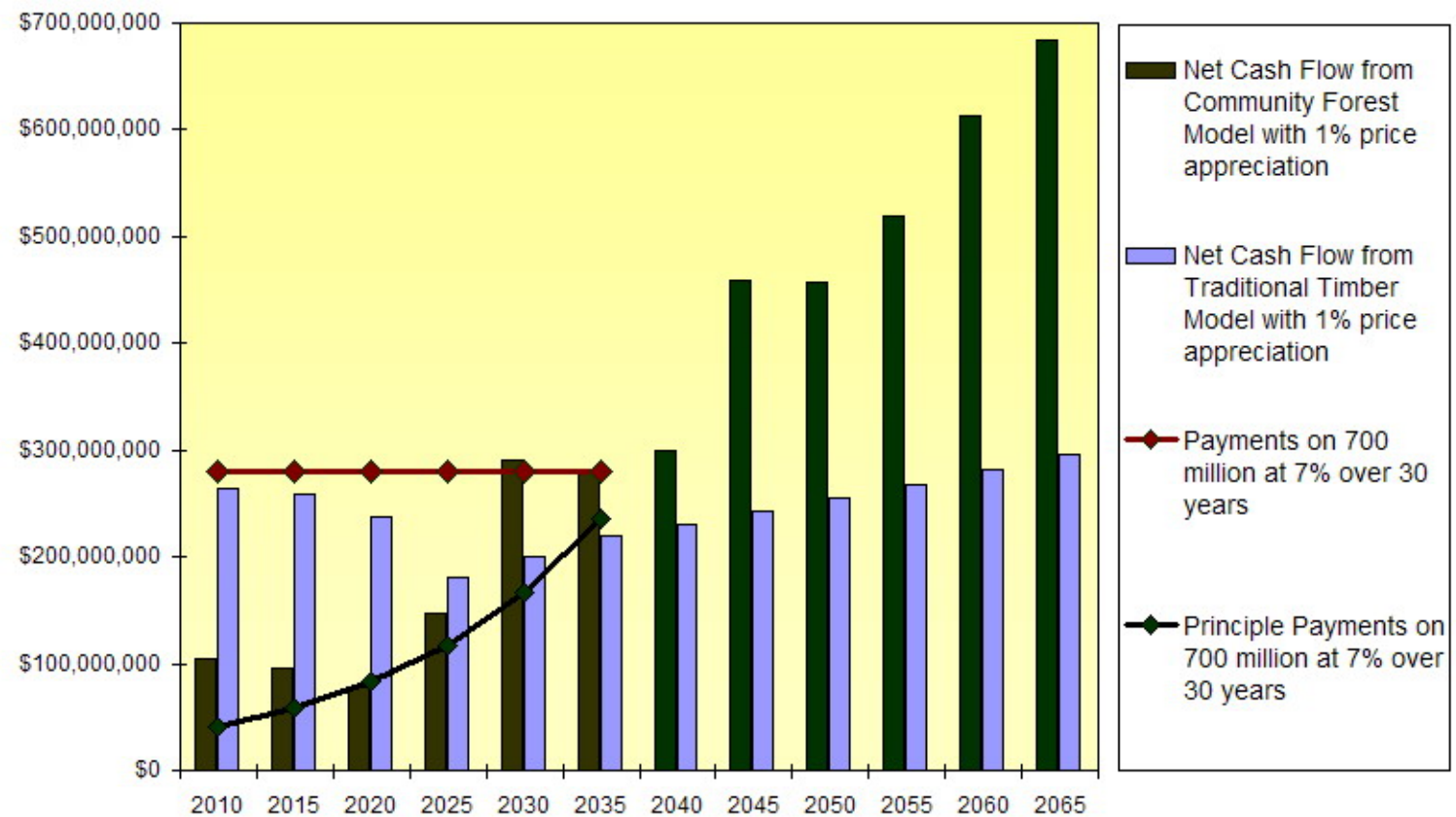
Scopac Valuation Summary

Scopac Valuations	Totals in millions	Per acre in thousands
Retire Current Bonded Debt	\$700.0	\$3,306
Traditional Revenues: Discounted at 7% w/ 1% price appreciation	\$646.7	\$3,055
Comparable Sales	\$424.2	\$2,004
Community Management Revenues: Discounted at 7% w/ 1% price appreciation	\$331.4	\$1,565

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Traditional Model vs Community Forest Model

Retire \$700 million bonded debt over 30 years: 1% price appreciation



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Traditional Timber Management Model

According to the figures developed in this report income generated through the Traditional Timber Management Model will likely fall \$314 million short of the capital necessary to retire the existing \$700 million debt over 30 years.

The sale of Scopac properties as smaller parcels for development could potentially generate sufficient revenue to retire existing obligations.

Therefore fragmentation of Scopac properties is likely.

If fragmentation occurs it could have a significant negative impact on the viability of local timber mills, sawlog markets and private non-industrial timber income – particularly in Southern Humboldt and Northern Mendocino Counties.



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Community Forest Management Model

While the financial hurdles are daunting:

- \$680 million, in addition to timber income, needed to retire existing debt over the first thirty years at 7% interest

The Community Forestry Model offers significant benefits in both economic and ecological terms:

- Increased *late seral stage* stand conditions from 12% to 54% of the overall acreage in the first 30 years, 100% in 60 years
- *\$3 billion in long-term income over the second 30 years* – double the long-term income and local economic impact of the Traditional Management Model in the same period
- Steady increases in forest inventories and productivity throughout 60+ years
- Steady increases in the provision of ecosystem services throughout 60+ years
 - carbon storage,
 - water quality,
 - in-stream and upslope wildlife habitat

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